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The Baltimore & Ohio situation

New York

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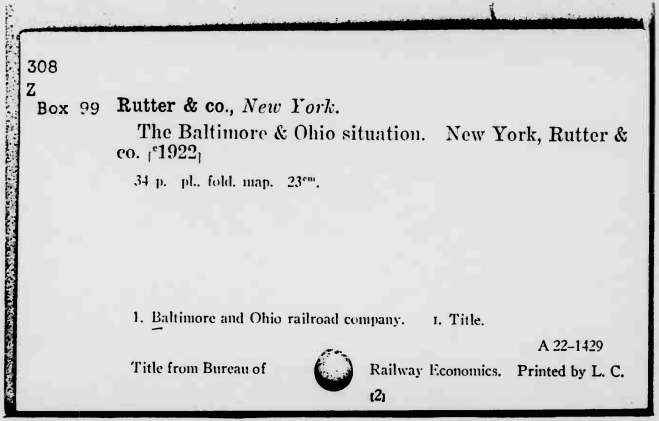

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The Baltimore & Ohio Situation

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New York

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The Baltimore & Ohio Situation

RUTTER & CO.
14 WALL STREET
NEW YORK

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Foreword

AFTER nearly twenty consecutive years of dividend payments, the development of a position of sound credit and the establishment of many of its bonds in the class legal for Savings Banks and Trust Funds, the Baltimore & Ohio ceased distribution to its common stockholders early in 1919.

This break in a long and enviable record was notable, and under ordinary circumstances would have invalidated this position of its bonds. Government control and resulting conditions, however, have saved their legal status which is now declared by the Attorney General of New York State to be intact until the end of 1922. If dividends are resumed at the rate of 4% annually by that time no change will occur.

Whether this will be done in time to maintain the investment rating of the bonds is a question no less interesting than an analysis of the fundamental causes which brought about the situation.

A study of the various factors in the growth and development of the road over the past twenty years gives a reasonably sound basis for the conviction that the passing of common dividends was but an incident of expediency rather than a symptom of inherent weakness, and that it may soon be a matter of history.

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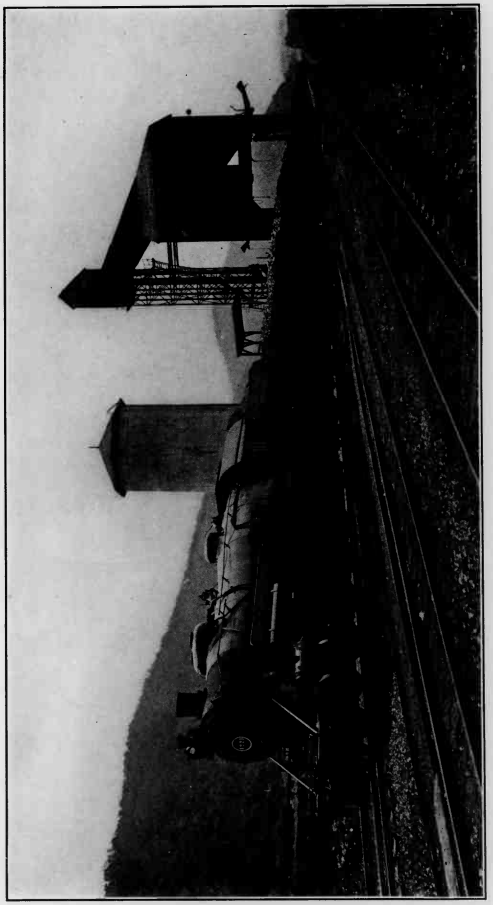

Baltimore and Ohio Coal Train. 63 steel hopper cars (55 tons capacity) loaded with 3,351 tons of coal. Gross weight of cars and contents 4,586 tons. Mikado Engine, weight 284,500 lbs.—Tractive power 55,000 lbs.

INTENTIONAL SECOND EXPOSURE

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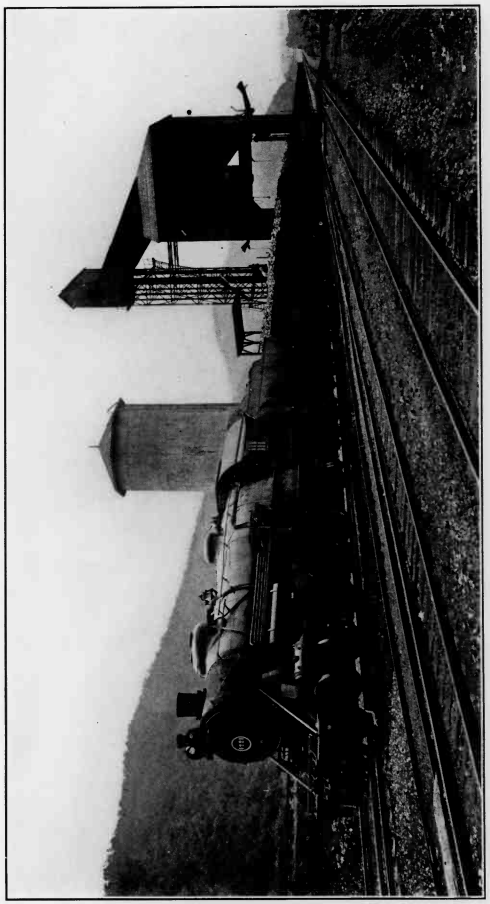


Baltimore and Ohio Coal Train. 63 steel hopper cars (55 tons capacity) loaded with 3,351 tons of coal. Gross weight of cars and contents 4,586 tons. Mikado Engine, weight 284,500 lbs.—Tractive power 55,000 lbs.

History—Expansion—Extent of the System

The Oldest Railroad in the United States
Incorporated 1827

On the cover page of the Baltimore & Ohio Annual Report for 1921 will appear this legend—Ninety Sixth Report—making indisputable the claim of the oldest railroad continuously in existence in the United States. It was designed as a route from tidewater to the Ohio River to offset the advantages derived by New York through the Erie Canal. The first section was opened in 1830. Its construction, we are told, was stimulated by the completion of the Canal and it was assisted by loans from the City of Baltimore. From about 15 miles it was gradually extended eastward during the next thirty years, so that during the Civil War it was an important means of communication for the conflicting armies, being frequently subject to extensive physical damage.

The modern B. & O. began about 1865 when it resumed its progress in all directions. First the Central Ohio R. R. was taken under lease, then through the Sandusky, Mansfield & Newark it expanded to Columbus and the shores of Lake Erie. In 1871 these western lines were tied to the main system and at the same time a through line opened to Cincinnati, Louisville and St. Louis. The line to Chicago was opened in 1874 and in 1876 the road entered Pittsburg through lease of a subsidiary.

Next came the extension of the line to Philadelphia which was opened in 1886 at which point a connection was effected with the Philadelphia & Reading, giving an entrance to New York over that line and the Central Railroad of New Jersey. The next fifteen years were spent in consolidating the gains made through these various stages of development, and strengthening its position in the east. During this period much railroad history was made, the Pennsylvania securing a one-third interest in the B. & O. and the latter acquiring a substantial interest in the Reading to maintain its access into New York.

During these years the B. & O. was weakened by excessive competition of other trunk lines, particularly the Pennsylvania, and in the process suffered severely through recurrent rate wars which eventu-

ally brought it to the breaking point. After a long record of payments to common stockholders, dividends were passed in 1887, resumed from 1892 to 1894, inclusive, and from that time until the final collapse in 1896 profits were nullified by these conditions. The stock which had been regarded as a premier security for many years sold at $8 per share.

By 1900 a reorganization was consummated without foreclosure and the road returned to its owners.

Expansion Programme of the Past Twenty Years

Soon after the reorganization a comprehensive programme of development and consolidation was begun. Almost immediately the B. & O. Southwestern was consolidated with the parent road and control gained of the Cleveland, Lorain & Wheeling. Other minor roads also were absorbed. A little later the company set out to change its corporate relations wherever possible by taking fee to the various lines and simplifying the title to the properties. This policy is being continued.

This intensive development has been toward the merging of subsidiaries wherever desirable, acquisition of other properties, terminal and otherwise, operation of all its controlled properties as nearly as possible as integral parts of the system, and the establishment of permanent terminal facilities. In this way the Chicago end of the line is secured by the complete control of a terminal company; in Washington it owns jointly with the Pennsylvania a large terminal; in New York it has practically two outlets, one through its Staten Island Transit Co.—the other over the Central Railroad of New Jersey tracks.

Solidification of the system has progressed continuously. By 1906 a total of 4,000 miles was operated directly, of which nearly 1,200 were double tracked, while control through stock ownership was exercised over more than 500 miles additional.

The next important acquisition of line occurred through the absorption of part of what was the original Cincinnati, Hamilton & Dayton. Under a plan of reorganization of the latter, the Baltimore & Ohio acquired the more important parts of this line consisting of the main line between Cincinnati, Toledo, Dayton and Wellston aggregating with branches close to 400 miles.

Additions of several hundred miles of small industrial or coal roads have been made from time to time so that today the system stands as a unified transportation machine extending over a wide territory.

Development and policies of the Baltimore & Ohio have been affected in greater or lesser degree over the past two decades by its position and necessities. Because of its position and the rate wars previously mentioned, the Pennsylvania in 1900 obtained practical control through the purchase of large blocks of stock so that down to 1906 this influence was dominant in B. & O. affairs. Late in that year it was announced that the Pennsylvania had disposed of its holdings and that they had gone to Union Pacific interests. A little later the Union Pacific distributed a large proportion of this stock to its shareholders so that now its stock is widely distributed to some 35,000 shareholders with no large dominant holdings.

By reason of its necessities the B. & O. acquired its only large investment outside of its own lines and terminals, consisting of $6,065,000 First Preferred, $14,265,000 Second Preferred and $10,002,500 Common Stock of the Reading Co. Through ownership of this stock its influence extends over the Reading and Central of New Jersey and through the latter its trains gain an entrance into New York City.

What the System Now Comprises

Today the Baltimore & Ohio lines comprise a system of approximately 5,235 miles strategically located. The general form of the system is a letter "Y" beginning at Philadelphia and passing through Baltimore and Washington westward to Cumberland, Md., from which point one of the big branches runs via Pittsburg to Chicago from which line feeders reach Lake Erie at five points. The Southern branch of the big fork crosses West Virginia, Southern Ohio, Indiana, and Illinois to St. Louis. Connecting these two long branches in western Ohio is the North and South line between Cincinnati and Toledo formerly a part of the Cincinnati, Hamilton & Dayton which the Baltimore & Ohio took over as its Toledo Division. Various feeders tap among others, the important cities of Johnstown, Pa., Wheeling, West Va., Sandusky, Ohio, and Louisville, Ky.

The system which is generally known as one of the "Trunk lines" gives a compartively short and direct route from the east to both Chicago and St. Louis. Although the main stem of the road is from Baltimore through Cumberland to Chicago, the line from Cumberland to St. Louis is hardly secondary in importance. A multitude of branch lines pour much of the traffic into the three main arteries.

The wide geography of the system is the basis of territorial divisions that are rather clearly defined. By reason of this the road is divided into five districts for purposes of efficient management.

It is interesting to note the extent and character of mileage in each of these districts.

District	*1st Track*	*Other Track*	*Sidings, Etc.*	*Total Tracks*
Maryland (Philadelphia to Grafton via Cumberland)	792	607	716	2115
Pennsylvania (Pittsburg Region)	685	282	409	1376
West Virginia (State of West Virginia)	1159	60	549	1768
Northwest (Upper part of old C. H. & D. line and Chicago Territory)	1213	535	941	2689
Southwest (Lower part of old C. H. & D. line—Indiana and Louisville Region)	1382	161	850	2393

The entire system is so comprehensive that in the tentative plan for consolidation of the railroads of the country into nineteen systems for rate making purposes under the Transportation Act of 1920, together with its present affiliations, it constitutes practically an entire group under its own name.

Industrial Foundations

Coal and Steel Dominant Factors in its Business

Because of the road's geographical position its manifest destiny from the beginning has been that it should depend largely on the

prosperity of the two related industries it serves. While it is one of the several important trunk lines and an important highway between the Middle West and the Atlantic seaboard, it is primarily a soft coal road, that commodity constituting a large part of its business.

For years the development of the system has proceeded along the line of acquisition of greater coal traffic with the aim of carrying coal, coke and ore to the steel centers and hauling out the steel products. This is indicated by the multitude of small branch lines in the coal and iron districts.

This situation has always had in it the possibilities of serious fluctuations in earnings coincident with those of the soft coal trade and the variations in the iron industry, but at the same time it has carried with it the advantages to be derived from a steady growth of industrial territory adjacent to the line. Industries located along the B. & O. tracks are assured generally of a steady flow of cheap fuel. The present management, it is stated, has set itself to embrace these advantages for industrial development with no small measure of success.

Through the accident of location and as a result of this policy the B. & O. reaches plants making approximately three quarters of the steel production of the United States. These plants are now operating at something like 75% of capacity. It is therefore practically impossible for the road not to prosper when the coal and steel industries are active.

Notwithstanding this close dependence on basic industries, it is a fact that the B. & O. has also devoted no small amount of attention to building up a diversified business along its lines. Traversing some of the richest sections of the United States it was to have been expected that this industrial development work would be successful and bring much high grade traffic.

In greater or lesser degree the road of course has competition in this programme and in its coal traffic, from the Pennsylvania, New York Central, Chesapeake & Ohio, Western Maryland, Virginian and Norfolk and Western, but not sufficient to handicap or retard a steady development in diversified business.

Characteristics of the Traffic

The outstanding characteristics of the Baltimore & Ohio traffic are the large proportion of soft coal business, and the high percentage this one general class of business represents to the total traffic. Altogether nearly 64% of its total traffic comes from the mines. It is one of the great soft coal roads since nearly 49% of its total freight consists of this commodity while 3% is anthracite and coke.

Another 4% of the traffic is accounted for by the large movement of ore from the lakes down into the steel making districts.

The relative importance that soft coal represents in tonnage does not hold in the matter of gross revenue. Although this traffic represents nearly half the tonnage it produces only between 20% and 25% of the total revenue of the company.

By weight, therefore, the soft coal business is one thing—by money it is another. Much stress is often laid on this single element in the prosperity of the road but it will be seen that the course of earnings requires a broader study than the coal situation alone.

Analysis of the road's traffic from the viewpoint of originated business shows that about 63% originates on its own lines. This proportion is good and is fortified by the fact that it includes the predominating percentage of all the important traffic. The only relatively large amount of traffic turned over to the B. & O. is in the 21% of mines products which is largely represented by coal from lateral lines and by the ore carried down from the lakes and is low grade, bulky and relatively low pay traffic.

The approximate percentages of the different classes of freight originated and derived are shown in the following table:

	Percentage originating on line	*Percentage received from other roads*
Products of Agriculture	2.06	3.53
Animals and Products	1.08	.52
Products of Mines	42.80	20.93
Products of Forest	1.32	2.84
Manufactures and Miscellaneous	14.34	7.89
Merchandise—L. C. L.	2.00	.69
Total	63.60	36.40

Direction of movement of the B. & O. traffic counts heavily in the general effectiveness of the system and successful utilization of the plant. With one exception—the Pennsylvania—the B. & O. moves more coal to the lakes than any other carrier. This originates very largely in West Virginia, western Pennsylvania, Ohio and Kentucky moving northward to the lakes and eastward to Baltimore for reshipment all over the world. The importance this gives to the Southwestern part of the system is indicated by the large amount of trackage in that district. This movement north and east is counterbalanced by the heavy back haul of iron ore from the lakes in which respect the road ranks about fourth in importance.

The physical structure of the system develops a large trunk line traffic. Passing through the center of the great industrial area of the upper middle west its main line traffic is very heavy. The industrial traffic from that region and much coal traffic from the southwest is poured together on the eastern end of the system at Cumberland from which point there is a stretch of line which carries the greatest density of the whole system a part of which has approximated at times 25,000,000 ton miles.

Naturally the load is extremely heavy. The three dominant factors in B. & O. traffic are moved in huge trainloads and the coal and ore loaded and unloaded almost entirely by machinery and at relatively little expense. It is interesting to see the relative weight of the load by comparing the essential figures with two other roads admittedly successful in operating efficiency and sound in earnings.

Using the 1920 figures it is seen how closely they approach the Pennsylvania statistics:

	Average revenue tons in a car	*Average revenue tons in a train*	*Average loaded cars in a train*
Baltimore & Ohio	34	873	26
Pennsylvania	30	758	25
Atchison	23	501	22

The facility of traffic movement is further demonstrated by the percentage of load that is carried to the total car mileage.

Baltimore & Ohio	64.43
Pennsylvania	66.43
Norfolk & Western	62.84
Atchison	67.39

That is to say of all the miles run by freight cars these percentages were done by fully loaded cars. The comparison apparently speaks for itself.

Intensive Development the Policy of Past Twelve Years

Physical Betterment Produced a Plant of Greater Capacity

Enormous sums have been expended by the B. & O. since 1900 on the physical betterment of its plant. During the first ten years these capital expenditures were made for double tracking, new equipment, relaying track with heavier rails, and the general building up of the road to what was called the "Pennsylvania Standard." The extent of these capital expenditures may be inferred from the increase in the road's common stock by $107,000,000 and funded debt by $61,000,000. Furthermore in attempting to keep abreast of the foremost roads which had turned back large amounts of their earnings into improvements, the road systematically set aside from the time of its reorganization through 1907, large sums from surplus earnings so that approximately $25,000,000 came from this source.

Since then, or in a little over twelve years, the company has spent upwards of $101,000,000 for new equipment, $96,000,000 for construction of new lines, improvements and additional facilities, $65,000,000 for purchase of new lines, and a little under $17,000,000 for miscellaneous investments, practically all of which contributes directly to the physical improvement of the property and the up-building of its effectiveness as a traffic machine.

This was a period of rehabilitation involving an extensive programme of expansion. Tremendous increases in business had to be met by increased facilities. Hence car capacity was increased, bigger locomotives obtained to pull heavier and longer trains, heavier rails and better ballast laid, larger terminals and more sidings provided and in general, all other modern improvements made which facilitate the better movement of trains.

As a result of all this it is generally considered that the big improvement programme of the B. & O. is fairly completed, and that by reason of these extensive improvements together with large maintenance expenditures, the entire system is in good physical condition.

Average Maintenance Figures For 10½ Years Ended 1920

Miles Operated	*Way & Structures*	*Equipment*
4736	$16,977,872	$30,310,214

For the Year Ended December 31, 1921

5187	$24,617,808	$45,129,857

Maintenance for 1921 was altogether $32,000,000 below the figure for 1920 but the latter year was inordinate. In 1921 nothing essential for efficient and safe operation was skimped. As on many other roads only secondary and unimportant but costly things like painting were a bit neglected.

To help move the traffic on 5,200 miles of main track there are 5,000 miles of other track, sidings and terminal yards. About 28% of the total mileage is double tracked. The 944 miles of double track from Philadelphia to Chicago are laid with 100 pound rails and largely supported by stone ballast. On the Cumberland division where the greatest traffic density exists, the Allegheny mountains are pierced by two long double track low grade tunnels. This together with a cut off costing approximately $6,000,000 gives a four track line for thirteen miles eliminating traffic congestion which previously occurred at this point, and increasing the carrying capacity east by 40%.

Aside from the company's voluntary diversion of earnings into improvements and betterments there was an arrangement at the time the company put out its $35,000,000 notes in 1919 whereby it obligated itself to put aside no less than $3,500,000 per annum for capital expenditures until a total of $17,500,000 has been put back into the property out of earnings. At the end of 1921 about $8,750,000 had been applied for this purpose.

The policy of development over the past few years has produced a plant which can handle a much greater business than it has yet been called upon to care for.

Equipment Enlargement a Factor

The large expenditure for equipment indicates that there is little old rolling stock left on the system. Half the total tractive power has been acquired in the last ten years while the small motive power has been scrapped. The freight cars are all steel or semi-steel con-

struction. Half of them have been acquired in the last ten years and are of an average capacity of over 46 tons. A large portion of the older equipment has been rebuilt and strengthened. The change in this respect is indicated by the figures below.

	Locomotive tractive power. Lbs.	*Freight car capacity. Tons*	*Value in all Equipment*
1921.....	113,179,388	4,309,437	$164,913,694
1914.....	87,138,997	3,653,328	107,756,047
1910.....	64,629,705	3,149,877	72,946,825

Expansion of Capitalization Large and Significant

Having named the factors in the development of the road's broad policy of expansion and physical betterment let us now see what the effect has been on capitalization. The changes here are great and significant. While the property was showing a substantial annual surplus of earnings after all expenses and improvement appropriations back in the early 1900's, it was obviously possible to finance largely by means of stock. This explains the increase in common stock over those years.

Since 1910 the emphasis has been on bond issues. Bonded debt increased from $277,512,000, Jan. 1, 1910, to about $515,414,384 by December 31, 1921. This great increase indicates practically the complete capitalization by funded debt of every improvement and investment. Over approximately the twelve years ended 1921, the B. & O. spent upwards of $279,000,000 for the various purposes already cited, of which about $247,000,000 was financed through securities issued or assumed, and $32,000,000 through charges against earnings or income.

The changes in capitalization are shown in the table:

	Common Stock	*Preferred Stock*	*Funded Debt*
1900.....	$44,975,099	$58,876,883	$212,008,157
1910.....	151,980,919	58,991,804	272,944,172
1921.....	151,945,548	58,863,181	515,414,384

These significant changes must be viewed in the light of what the B. & O. has acquired over the years in the form of additional facilities and lines, the betterment of old lines, and outside investments, particularly its large holdings of Reading stock. A rough

approximation of the changes in values back of this greatly increased capitalization is to be had by comparison of the "Property and Investments" over the years in which bonded debt was growing so rapidly.

	Total Property and Other Investments
1921	$790,956,097
1913	585,941,338
1910	514,323,786

Although no official figure has yet been given, tentative estimates of property valuation of the B. & O. indicate that it will be close to the latest book amount above shown.

In a general way analysis of these figures shows where the money has gone. The scope of the company's development programme shows to what degree these large expenditures were necessary. The expediency of increasing so greatly the proportion of funded debt to total capitalization was no doubt dictated by circumstances.

Development of Traffic Has Been Consistent

Until 1910 the road had gone ahead as best it could improving the property out of its ample earnings but not eager to go into debt for it. About that time the management came to a realization of the fact that the betterment of facilities was imperative if the policy of getting more coal business, carrying coal, coke and ore to the steel centers, bringing back iron and steel products and catering to the building industry was to be carried out to its logical extent.

The increase in mileage from 4,434 in 1910 to 5,235 in 1922 reflects the progress of absorbing affiliated and controlled roads through which a larger coal business could be obtained.

The outcome of these preparations for greater business has shown the wisdom of the management. A natural increase of business of course would have been inevitable over the years but the added impetus resulting from the policy of expansion and improvement has given large absolute and relative results. That is to say, the road has successfully met the necessity of handling a normal increase of business and the competition of such strong systems as the Pennsylvania, New York Central and Chesapeake & Ohio and others on soft coal traffic both inland and for export.

Figures showing the rate of progress are almost sufficient to speak for themselves.

	Revenue Tons of Freight Carried	*Freight Density*
1920	101,924,520	4,060,504
1910	62,797,745	2,711,666
1905	50,799,836	2,150,464

Conditions during 1921 are well known and it is understood that a decrease in traffic occurred on all roads.

The year 1920 was a period of enormous business, but notwithstanding the great increase over any previous year, it may be said that the B. & O. has never yet had the opportunity to employ under normal operating conditions the great additional capacity added under the present management. It is possible that the road could handle 20% to 25% more traffic than it has ever been called upon to carry without serious congestion and with no great further outlay for facilities.

Operating Improvement Indicated in Various Ways

The vast improvement programme inaugurated in 1909 was coincident with the incumbency of President Willard in that office. The task that lay before him was to build up the B. & O. system with respect to physical development, and adjustment of its position from a traffic standpoint. This physical progress has been great. But while this was going on no small amount of attention was bestowed on the building of the business which is so highly competitive.

The very character of the B. & O. traffic, of course, creates enormous figures. The road has a vast amount of low grade tonnage on which the percentage of profit is small. On the other hand this gives the management full scope by every effective means that may be devised to cut down costs.

In this connection it may be well to point out that the operating costs *per se* do not reflect to a full measure the efficiency of operation. The past few years demonstrated that there have been many conditions beyond the control of any management, such as wage increases and higher material costs. Of late the variables in operating costs have been coming under control. Before high costs and wages struck the road the ratio of transportation costs to gross was favorable. In 1916 it was 34.77%; in 1920 49.07%; in 1921 43%.

Any further reduction of course means a substantial addition to net earnings with gross figures running around $200,000,000 annually. The operating problem of the road is to squeeze just a little more money for net each year out of each operating unit.

With such enormous masses of these units to work on the figures show in one way and another how this is being done. A haul of a few more miles for each ton, each car and each train, a little more in each car, and a few more cars in each train and we have essentially the formula for adding substantially to net earnings.

The same proportion of advance does not appear in each set of figures but the general picture of operating improvement through efficient management is obvious in the tables presented blow.

	Average Haul per Revenue Ton. Miles	*Average Car Load Revenue Tons*	*Average Train Load Revenue Tons*
1920	205	33.7	873
1914	193	25.8	645
1910	191	22.9	442

In studying these figures it must be remembered of course that the enlargement of equipment capacity accounts for something of this advance in loading, yet no small part of the improvement is due to better handling. The increased haul is due very largely to operating efficiency. From the above table it does not appear to be large, but nevertheless applied to a great amount of tonnage the effect is striking.

Other figures substantiate the operating efficiency. The average number of loaded cars in a train, another very important unit of measurement, while 23.99 in 1914 was slightly under 26 in 1920.

Still another way to view operating performance is to study the relationship between all ton miles and the number of miles the locomotives run to haul the traffic over these miles; also the combined number of miles all freight trains ran divided by the entire mileage of the system. In the first instance comparison is made to show whether there is a better utilization of plant developing. The *freight train mileage* per mile of road is indicative of the fact that fewer or greater miles are being run to carry the business.

In the case of the B. & O. there is a pronounced better usage of the facilities since the *Ton miles* are seen to have increased from

1911 to 1920 by approximately 80% while the locomotives in the latter year ran only 4% more than they did ten years previous. This indication of efficiency is supported by the freight train mileage exhibit. Multiply the decrease in train mileage (which it should be remembered involves a load of 873 tons or 26 cars) by the system mileage and there is the enormous result of many millions of miles saved by effective operation.

	Revenue Ton Miles	*Locomotive Miles*	*Revenue Freight Train mileage per mile of road*
1920	20,932,667,112	67,371,623	4649
1916	17,004,703,831	67,399,322	4749
1911	11,703,539,445	64,708,403	5990
1910	12,024,583,527	64,316,068	6130

The Relation of President Willard to the Present Position of the Road

When Mr. Willard came to the Baltimore and Ohio property in 1910, he brought to the solution of the carrier's problems ripe railroad experience and wide business knowledge. He had occupied practically every subordinate position in the railroad service, matured by the occupancy for several years of the position of Vice-President and operating head, first on the Erie railroad and then for six years on the Burlington road. He had, too, the advantage of a knowledge of the physical properties of the Baltimore and Ohio Company, for as Assistant to the Second Vice-President and General Manager, Mr. F. D. Underwood, he had, from February, 1899 to May, 1901, been in general charge of the property and its maintenance. He knew the strength and weaknesses and when he returned to the property in 1910 set about fully availing of the former and of building up the parts that were weak.

During the preceding years there had been a marked decrease in the coal development upon the line which, with the increase in other traffic, had caused congestions at various "pinch" points. The first year of Mr. Willard's administration showed the purchase of 7,000 freight cars and 166 locomotives and the inauguration of an extensive program for the building of second, third and fourth tracks, and the expansion of yards and terminal facilities to permit the

handling of the business then offering. No sooner had the conditions been reasonably met than he inaugurated an active industrial development campaign through which there was brought to the attention of the manufacturing public the advantages in locating in the midst of the vast natural resources obtainable on the Baltimroe and Ohio lines, which resulted also in the further development of these resources.

Mr. Willard's practical experience and knowledge of operation led to the adoption of heavier power which is reflected in the higher average load per train and more efficient operation. The betterment of track conditions, and the acquisition of steel passenger equipment, with ample power, has resulted in establishing a high standard of passenger service, and a large increase in passenger traffic.

The disproportionate relation borne by rates to expenses has prevented a full realization in net earnings from the marked improvement in physical and operating conditions of the property. Now that rates have been adjusted more nearly in line with the basis of operating costs, there should be a more pronounced realization from the large expenditures made over the past several years, a realization which should become more marked as traffic develops through a fuller utilization of the available facilities.

While the Cincinnati, Hamilton and Dayton purchase, referred to in another part of this statement, was made prior to Mr. Willard's coming to the Baltimore and Ohio, he was impressed with the importance of that part of the property finally acquired by the Baltimore and Ohio Company, and several million dollars, reflected in the total cost of the property, was expended under his supervision for the improvement and double tracking of portions of the line and expansion of its important terminal facilities at Toledo, and it is known that he has confidence that it will ultimately prove to be one of the most valuable portions of the Baltimore and Ohio system.

A Solid Foundation of Earning Power the Result

To understand the position of the Baltimore & Ohio clearly it is necessary to bear in mind that it is a road of *dense traffic* a substantial proportion of which is low grade, on which the margin of

profit is necessarily low per unit. Also it must be kept in mind that over a long period the road has been engaged in a programme of *large capital expenditure* to increase the carrying capacity and reduce operating costs by changing grades, curves, increasing terminal space and enlarging motive power.

Co-ordination of these two major phases of the road's position has developed a situation which is to bear more fruit in the future than it has in the past. In other words, while improvements have been made in preparation for enlarged business other factors such as the war and the period of Government control have only postponed the inevitable increase in net earnings.

In examining the foundations of the B. & O.'s earning power there is the question of the relative importance of coal traffic. The prosperity of the road is commonly supposed to be pivoted on the soft coal industry and this was for a long time regarded as an element of weakness. Perhaps it would have been but for a remarkable fact that the production of soft coal has increased more than thirty times over the past half century. Co-incident with the increasing industrial character of the road has been the development of soft coal consumption both on and off the road.

Aside from this general consideration, the factor of coal traffic requires a little more analysis to determine its relative importance. The question arises is the B. & O. dependent on this coal traffic. The facts of the tonnage and earnings therefrom should give the background for an answer.

In the matter of coal versus other traffic, the record stands as follows over nine years:

TONS

	Coal	*Other Traffic*
1921	35,290,240	36,246,462
1920	48,933,438	52,991,082
1919	40,752,924	48,109,324
1918	45,259,560	50,086,669
1917	39,333,176	54,183,706
1916	33,615,581	49,245,539
1915	31,876,835	40,294,348
1914	34,105,370	38,161,690
1913	31,805,543	40,655,521

Average earnings per ton for the year 1921.

	Coal	*Other Traffic*
1921	$1.4434	$2.9102

In relation to the total income of the road the revenue from the two great divisions of traffic is highly illuminating as to the importance each bears in the final result.

	1921	*1920*	*1919*
Coal	$50,937,353	$59,626,133	$39,571,123
Other Freight	105,483,859	123,084,495	97,231,763
Passenger	29,331,034	31,183,370	31,724,006
Miscellaneous	12,870,126	18,050,444	14,093,158
Other Income	10,120,824	5,399,859	5,429,217
	$208,743,196	$237,344,301	$188,049,233

In a general way therefore Coal produces about 30% of freight revenue and between 20% and 25% of all income. The answer is contained in the above tables which show conclusively that to class the B. & O. primarily as a coaler is correct as far as the relationship between coal tonnage and other traffic is concerned, but misleading when translated into terms of revenue.

Since the B. & O. is only one of half a dozen important soft coal carriers, it is obvious that coal mine strikes and industrial let downs affect it only proportionately. Reduced to a matter of dollars of revenue it is not serious. Various estimates have been made of the cost of the coal strike to the B. & O. These vary from $300,000 to $500,000 per month. Whatever it may prove to be it is necessary to remember that there was an extraordinary movement of coal before the strike in anticipation of it, so that on balance, perhaps, the road lost little indeed.

In spite of the low freight rates which coal bears, the profit in handling it is excellent because it is moved in huge train loads and loaded and unloaded almost entirely by machinery with relatively little expense.

In subsequent tables it will be seen that there is a constant increase in traffic. This is reckoned some times as approximately at the rate of $10,000,000 gross and $2,000,000 net annually.

However much the volume of business may increase, it is hardly

necessary to state that there must be a proper rate structure on the various classes of traffic handled. For a decade, or until the end of 1917, almost no general advance in freight or passenger rates had been made, while the road was struggling with rising operating costs. It is evident from the increase in earnings per ton over the past few years that it takes only a very small amount on each unit to add considerably to the gross and net earnings of this system. It does not necessarily follow that a decrease in rates would translate itself into smaller net earnings.

In the matter of income from "Other Investments" the B. & O. may be said to be stabilized. Its Reading stock represents the principal outside interest but this will always pay for itself in addition to giving strategic advantages. On the other end of the line the Chicago Terminal should continue to be a valuable and growing asset. There appears to be no weakness in the road's investments and there are prospects of an increase rather than decrease of "Other Income" from this source.

The Actual Progress Shown in Figures

A picture of the changes in general earnings and in the revenue per unit is best had from a simple statement of the figures. The latest year for unit figures is 1921. General figures were lower all around in 1921. The steady development in nearly every instance will be quickly apparent. Gross Operating Revenue, of course, is largely a matter of general business conditions, while Net Earnings are a matter of operating expense, and unit earnings a matter of operating efficiency.

	Gross Operating Revenue	*Freight Earnings*	*Passenger Earnings*
1910	$90,163,401	$69,408,113	$14,485,585
1920	231,944,443	182,710,629	31,183,370
1921	198,622,373	156,421,213	29,331,034

	Average earnings of all freight per ton	*Earnings of all freight averaged over the road per mile*	*Average earnings of all revenue freight reduced to the ton mile*
1913	$1.106	$17,995	5.6 mills
1920	1.793	35,442	8.73 mills
1921	2.181	30,155	11.02 mills

	Average earnings for each mile revenue freight trains ran	*Average Earnings per ton*	
		Coal	*Other Traffic*
1913	$3.4718	$ .8199	$1.331
1920	7.6229	1.2185	2.322
1921	7.8550	1.4434	2.910

What Has Been Done Despite All Drawbacks

With all the difficulties of tremendously increased operating expenses, severe competition, low freight rates, heavy additional fixed charges and the like, the B. & O. under capable guidance has nevertheless given ample evidence of its vitality of earning power. The fluctuating margin for dividends has not been pleasing from the stockholders point of view, but for the bondholders there has not yet been a time when interest payments were endangered. Their position is clearly indicated in the following table of earnings.

Year Ended June 30	*Gross Revenues*	**Total Income available for Bond Int.*	*Bond Interest Charges*	*Balance*
1912	$94,040,594	$26,077,915	$13,028,454	$13,049,461
1913	103,329,992	27,219,910	13,837,799	13,382,111
1914	99,164,010	23,594,335	14,344,311	9,250,024
1915	91,815,797	25,261,170	14,480,288	10,780,882
1916	111,668,680	31,171,256	17,478,809	13,692,447
Dec. 31				
1916	121,793,842	31,636,450	18,452,060	13,184,390
1917	139,851,910	26,569,179	18,473,948	8,095,231
1918	175,259,575	*24,102,990	19,060,886	5,042,104
1919	182,620,016	*28,220,645	19,640,622	8,580,023
1920	231,944,443	*29,206,073	21,960,591	7,245,482
1921	198,622,373	28,922,960	22,534,069	6,388,891

*Total Income available for bond interest for 1918, 1919 and 1920, is the result after taking account of Government guaranty and represents the actual money coming to the Baltimore & Ohio for those years irrespective of what it earned through operations. The year 1920 had only 8 months guaranteed.

Why Much More Has Not Been Accomplished

Gross revenue increased handsomely but it could not bear the double burden of high operating expenses and high fixed charges. Why the great improvements in property and operations did not bear immediate fruit in larger net earnings may be charged to increasing expenses. Everyone is familiar with the underlying causes of the high expenses. It is sufficient comment on this phase of the situation to say that in 1910 Operating Ratio was 69%; in 1916, 72%; in 1920, 97.6%; in 1921, 83.8%. The trend of things here was identical with that of practically all other roads. It is now in the reverse movement. Maintenance reached its percentage peak in 1920 taking about 44% of Gross Revenue while Transportation costs absorbed over 49%. In 1921 the management established a better equilibrium but did not neglect any essential of upkeep.

During the past few years the B. & O. was but one of the many roads that were required to do new financing at high cost. The effect of increasing funded debt so greatly with declining net earnings was obvious and caused a continuous decline in both the preferred and common stocks foreshadowing the final cessation of dividends on the common stock in June, 1919, after an unbroken record of 19 years.

The war years disarranged the system somewhat from an operating standpoint but, of course, the financial aspect was taken care of by the Standard Return.

The Cincinnati, Hamilton & Dayton Incident

In any discussion of the financial condition of the B. & O. more or less emphasis is generally laid on the effect of the purchase of the Cincinnati, Hamilton & Dayton property in 1909. Attributing the decline of surplus earning power directly to this episode in the road's experience, because directly or indirectly this purchase had to be financed with additional permanent debt, is carrying the point so far that it cannot well be supported by the facts. This 400 miles of line operated now as an integral branch of the system serves a thickly populated manufacturing and agricultural territory in the State of Ohio between Toledo and Cincinnati and reaches among others the important cities of Hamilton, Findlay, Lima and Dayton,

Ohio. It links up the northern and southern arms of the B. & O. system through these cities and reaches the lake ports which turn over the large ore business for the steel districts. Coal from the Kentucky field moving northward, together with other traffic, goes from Cincinnati over this acquired line and creates a section of great traffic density second only in volume of tonnage to the four track division between Cumberland and Martinsburg where the company realizes its greatest density of traffic. Because of the density of traffic and the favorable conditions, the operations show a lower operating ratio than the average of the system, and hence proportionately more profitable.

For the purchase of the original C. H. & D. which now is the Toledo & Cincinnati R. R. Co. and known as the Toledo, Cincinnati Division of the B. & O. the company paid in the neighborhood of $62,000,000 or approximately $155,000 per mile. Though a high price at the time, it is not far above the average property account value per mile placed upon the entire system at present.

Over against this capital expenditure must be placed the advantages of operation, the valuable terminals acquired and the large traffic directly or indirectly secured, all of which has been of constantly greater importance to the system.

It may be argued that if the B. & O. paid $25,000,000 too much, (it actually wrote off about $11,000,000 loss on this account) the burden of $1,500,000 annual interest at 6% on this sum would not account entirely for the decline in surplus income and the suspension of common dividends, affecting the company's dividend requirements by but 1%. As a matter of fact it is believed this portion of the road is earning the interest on the $51,000,000 at which it is carried by the company. Even if the B. & O. were dragging an intercharge of $2,500,000 to $3,000,000 annually as a result of its investments in those early days, there would still be much more to account for to explain the earnings situation over the past few years.

The relation of *costs* to *income* is rather the factor dominating the situation. Without this to contend with the road would long since have outgrown the effects of its over-paid-for investment in this property.

It cannot be denied however that up to the present time the B. & O.'s financial position would be much stronger had it not made

this investment, but it would be in a much less desirable position in the matter of traffic and future possibilities. Whether the future will completely justify it or not is a question that time only can answer. The fact remains that the B. & O. owns the property and is undoubtedly doing everything possible to make it a paying investment.

Earning Possibilities and other Prospects

It is well understood that the B. & O. has had rather rough going during the past three or four years. Its lines were divided during Federal control under the jurisdiction of six Federal Managers reporting to four Regional Directors and there was diversion of much of its traffic particularly its high grade freight traffic and passenger business to other roads.

Because of its position with respect to the coal fields of Pennsylvania, West Virginia and Ohio, the Railroad Administration utilized it as a coal carrier with the tendency to upset the normal method of operation. Some parts of the line were overburdened with business largely of the less profitable kind while others handled much less than usual.

After the war the company had the task of resuming the programme for physical betterment and re-establishing its trade position. While it is believed that all the ground lost has not been regained, in many respects the road has come a long way back toward normal operation.

Estimated Results

In 1921 the gross earnings were $198,622,373 and the operating expense ratio 83.8%. What these figures will be this year will depend on the company's ability to reduce operating expenses. For the first five months the operating ratio was 78.8%. On that ratio with last year's gross there would be a wide margin of safety for the funded debt, the preferred dividend could be paid and there would still be about 5% on the common stock. On a ratio of 75% there would be 10% left for the common stock.

Before the war the road's operating ratio varied between 70% and 75% and was usually around 72% so that with wage reductions

overbalancing rate reductions now in progress and with receding fuel and material costs it is not inconceivable that the B. & O. might operate at 75% as a whole in 1922. With the management whittling away at operating costs and an increase of around 10% in gross revenue above 1921 the results would be highly satisfactory in net earnings. With a moderately favorable outcome of coal, labor and rate controversies, an almost inevitable improvement of traffic hereafter may be looked for.

Industrial Expansion Portentous for 1922-1923

If the Baltimore & Ohio could survive through the recent period of depression when the steel business was at its worst, coal business poor and general business quiescent, which it has, and make such a striking recovery in earning power immediately after Federal control, and if it be conceded that the railroads as a whole have turned the corner and industry is definitely on the road to improvement, the question is, What will be the extent of recovery of this road?

Conceding that the expected development will come about in industry, then ore, steel and coal will move in great volume so that it is quite possible to see gross revenue again as high as in 1920—$230,000,000—possibly higher. An operating ratio of 80% would mean a big margin over fixed charges.

Gross earnings of $81,089,643 for the first five months of 1922 were over $1,000,000 in excess of those of the corresponding period in 1921. These five months normally produce 40% of the annual gross revenue and 36% of net earnings. August, September and October produce about 26.5% of gross and nearly 29% of net. What should happen if a revival of business is under way by Autumn is obvious.

Funded Debt is Large and Complex

At the present time the company has outstanding approximately $515,414,384 funded debt followed by a total of $210,800,000 preferred and common stock. Its debt is therefore over 70% of total capitalization. This preponderance of debt, however, must be considered in the light of its productive purposes and the values of certain assets like the Reading securities that in effect offsets a large

amount of bonds. Funded debt has almost doubled since 1910, with a correspondingly large expansion of fixed charges. Over against this, however, other income resulting in large part from its capital expenditures was $3,722,377 in 1910 compared with an estimate of $5,500,000 for 1922.

As the road's facilities are ample to take care of much greater traffic than the current requirements, it is quite likely that no great addition to funded debt will be created in the near future, other than in the nature of refunding operations. The past twenty years has brought about a complexity of debt that is perhaps as great as that of any other railroad in the country.

As part of the programme, however, of the past few years, there has been a steady effort to simplify the title to properties and to reduce the number of corporate entities comprising the system, thereby affording a more comprehensive basis for future financing. The company is taking title to various lines as fast as practicable.

The Maturities of 1925

Re-establishment of Baltimore & Ohio credit should go on continuously under the favorable circumstances already set forth. Over the next three years so much may happen that by the time the extensive maturities of that year come due the necessary refunding operation should be a simple procedure from a market point of view.

From July 1, 1922 to 1925 there are relatively few maturities. Including that year they are approximately as follows:

	Bonds		*Equipment Obligations*
1922	$441,000	Pitts. Cleve. & Toledo, First 6s..	$474,517
1923			4,888,134
1924	3,000,000	5-Year Collateral Trust, 6s.....	3,884,134
1925	74,910,025	Prior Lien 3½s.....	3,884,134
	44,991,530	Southwestern Div. 3½s	
	6,124,500	Pitts. Jct. & Mid. Div. 3½s.....	
	5,000,000	Schuylkill Riv., First 4s	
	$134,467,055		$13,126,919

No serious increase in funded debt should result directly from these refunding operations. The effect on interest requirements will

undoubtedly be to increase them. It is rather an extravagant hope to expect anything like the low interest rates at which the maturing bonds were put out. It is hazardous to make a guess at the rate on which the refunding will be done but if it were somewhere near a 5½% rate this would add approximately $3,000,000 to annual fixed charges.

In the large Refunding and General Mortgage authorized to the extent of over $600,000,000 provision is made for the refunding of all maturing bonds. It is of course problematical whether this mortgage will be availed of at the time. Money market conditions, the progress of the company and the investment temper at the time will dictate these details. By the terms of the Refunding and General Mortgage the company has the option of refunding the Prior Lien 3½% bonds into First Mortgage 4% bonds as in the latter mortgage provided and also of extending the Southwestern Division 3½% bonds to a date not later than July 1, 1950.

A glance at the accompanying schedule of funded debt shows the complexity of the company's obligations. It also shows the possibilities for a comprehensive financial plan to clear up the "patch work" obligations resulting from the assimilation of additional mileage and the deposit of masses of miscellaneous collateral here and there under the various mortgages.

It is interesting to note incidentally that the provision of the 6% Note Indenture of 1919, which calls for the setting aside of $3,500,000 annually out of earnings before paying dividends, until the total is $17,500,000, states that the money must be set aside solely for "Capital expenditures hereafter made, to pay loans incurred for capital expenditure heretofore made or to pay maturing funded obligations." Apparently the company is here permitted to pay off maturing bonds with any or all of this money.

Funded and Unfunded Obligations

The present schedule of outstanding obligations with approximate interest charges for the current year is here given:

	Outstanding	Due Date	Rate	Interest
WHOLLY UNDERLYING LIENS				
Balt. & Ohio..	$74,910,025	1925 Prior Lien	3½	$2,621,850
Cleve., Lor. & W.	5,000,000	1933 First	5	250,000
Schuylkill River East Side ...	5,000,000	1925 First	4	200,000
W. Va. & Pitts.	3,815,000	1990 First	4	152,600
Clev. Term. & V.	3,301,000	1995 First	4	132,040
Cinn. Ham. & D.	2,000,000	1937 2nd-now 1st	4½	90,000
Ohio River ...	2,000,000	1936 First	5	100,000
Central Ohio .	1,009,000	1930 Cons. First	4½	45,405
Pitts., Cleve. & Toledo	441,000	1922 First	6	26,460
Ohio & Little K.	228,000	1950 First	5	11,400
Piqua & Troy Br.	7,000	1939 First	4	280
Hampshire So...	5,000	1934 First	5	250
Morgantown, Kingwood. . .	1,459,500	1935 First	5	72,975
PRACTICALLY UNDERLYING LIENS				
Balt. & Ohio..	81,995,310	1948 First	4	3,279,812
Southw'n Div..	44,991,390	1925 First	3½	1,574,699
Pitts., L. E. & W. Va.	42,980,000	1941 Ref.	4	1,719,200
Pitts. Jc. & Mid. Div. ..	6,124,500	1925 First	3½	214,357
ENTIRELY OR LARGELY JUNIOR LIENS (On comparatively small amounts of mileage)				
Cinn. Ham. & D.	3,000,000	1942 Genl.	5	150,000
Ohio River ...	2,941,000	1937 Genl.	5	147,050
Cleve., Lor. & W.	950,000	1930 Ref.	4½	42,750
Cleve., Lor. & W.	890,000	1936 Genl.	5	44,500
LARGE GENERAL LIENS				
B. & O. 20-Yr.	63,250,000	1933 Conv.	4½	2,846,250
B. & O. Series "A"...	60,000,000	1995 Ref. & Genl.	5	3,000,000

	Outstanding	Due Date	Rate	Interest
WHOLLY COLLATERAL LIENS				
B. & O. 10-Year (1) Secured	$35,000,000	1929	6	$2,100,000
Toledo & Cinn. (2) Div. ...	10,985,200	1959 First & Ref.	4	439,408
B. & O. 10-Year (3) U.S.Govt.	9,000,000	1930	6	540,000
B. & O. 15-Year (4) U.S.Govt.	3,000,000	1935	6	180,000
B. & O. 5-Year (5) Col. Tr.	3,000,000	1924	6	180,000
B.&O.(6) Notes Beth. Steel .	1,500,000	1925		37,500
Cinn. Ham. & (7) Dayton .	78,000	1959	4	3,120
OTHER OBLIGATIONS				
B. & O. Equip. Tr. of '20 ..	$15,427,100	1935	6	$825,626
B. & O. Grounds, Rent Liens & Real Estate Mtgs.	3,315,684		*5.45	180.740
B. & O. Equip. Tr. of '17 ..	5,000,000	1927	4½	225,000
B. & O. Equip. Tr. of '16 ..	2,000,000	1926	4½	90,000
B. & O. Equip. Tr. of '13 ..	1,000,000	1923	4½	45,000
Seaboard Air LineEquip.T.	453,024	1927	6	27,181
Beth. Equip.Tr.	600,000	1930	6	36,000
B. & O. Nat'l Eq.Ry.S.Cor.	11,700,000	1935	6 & 7	772,200
M. & K.Ry.Tr.	2,254,200	1935	6	135,252

The collateral designated below represents the entire security for each particular issue.

(1) $30,332,500 Reading Stock, $17,000,000 B. & O. Ref. & Gen.

(2) Miscellaneous Collateral Lien on 391 miles.

(3) $13,000,000 B. & O. Ref. & Gen. 5s & 6s, $2,200,000 Sandy Valley & Elkhorn R. R.

(4) $5,000,000 B. & O. Ref. & Gen. 5s, $100,000 Victory 4¾s.

(5) $5,000,000 Coal & Coke Ry. First 5s due 1924.

(6) Miscellaneous Stock—$1,999,300.

(7) Miscellaneous lien on 391 miles.

*Average rate per cent.

RECAPITULATION OF INTEREST FOR 1922

Wholly Underlying Liens	$3,630,285
Practically Underlying Liens	6,788,068
Entirely or largely Junior Liens	384,300
Large General Liens	5,846,250
Wholly Collateral Liens	3,480,028
Other Obligations	2,336,999
Total	$22,465,930

Investment Position of the Bond Issues

Since the middle of 1920 there has been no mistaking from the trend that the rehabilitation of the B. & O. security values is well under way. The numerous underlying bonds of course have a position of undoubted value with ample margin of safety in earnings. The market position of the large general liens, and all junior issues has reflected more definitely the degree of investment confidence in the position of the company.

From the wretched showing in 1920 when there was a deficit in operations, without considering the Government guaranty, the change in 1921 brought about a surplus over charges and preferred dividends of $3,885,806 equal to 2.56% on the common stock, while in the first five months of 1922 notwithstanding the loss through coal strike troubles, Net Railway Operating Income was $11,913,963 compared with $7,309,331 in 1921.

With this background together with the general improvement in the bond market, the B. & O. bonds have shown a marked improvement and the company should be able to accomplish new financing under favorable terms notwithstanding absence of dividends on the common stock. It is a noticeable fact that with the exception of the war controlled years the road has always earned interest charges by a substantial margin.

While arguing for the position of the junior issues this emphasizes the safety of the underlying bonds. In the schedule of funded debt it is hardly possible to show the relative claim on earnings that each issue enjoys, but a close analysis of any particular section of the line would undoubtedly disclose the very substantial technical

and investment position of many of the B. & O. bonds. The ultimate appraisal as expressed in market price is largely a matter of fine distinction in deciding the proportion of this or that element of value contained.

DIVIDEND PROSPECTS

The burning question just now in the appraisal of B. & O. securities is whether their legality as investments for Savings Banks and Trust Funds in New York and other states will be maintained by the necessary dividend payments on capital stock. The Attorney General of New York State has given his opinion that any B. & O. bond now rated in the legal class will continue legal during 1922 implying that absence of dividends on the common stock after that time may remove it from this category.

In other words, to maintain this status the company will have to resume dividends at the rate of 4% on the common stock during 1922. Considering the fact that a lapse destroys this status until the issuing company has paid the required dividends for five consecutive years, and bearing in mind that the company has some $134,000,000 of bonds to refund before the end of 1925, it may be concluded that the management will make every effort to preserve the standing of its bonds.

Dividends have been paid on B. & O. stock since 1900 so that the passing of the common dividend in the middle of 1919 was an incident of note. Payments on the common may be resumed this year but in order to do it the company must meet that special provision of the indenture covering the 6% notes before dividends are paid.

Revenue may be derived from other sources, however. In the segregation of the Reading Company's iron and coal properties it is likely that the B. & O. will get a substantial sum through its stock interest in this property.

Summary of Favorable Aspects of B. & O. Position

The foregoing discussion sets forth briefly the principal features bearing on the position of the bonded debt of the Baltimore & Ohio. A more extended study would only emphasize certain details without giving any basis for believing that the trend is anything else than favorable, and that the costly mistakes are so far back that their effects are largely neutralized by the development that has come to the property since.

Outline of Favorable Aspects

Physical Capacity for Much Greater Business.

A Well Balanced Movement of Traffic.

Effective Management Is Bettering All Operating Units.

Beginning of a Period of Much Lower Operating Costs.

Physical Structure of System Gives It Advantages of Broad Territory.

Penetrates the Most Important Industrial Section of the Country.

Rehabilitation of the Property Extending Over Past Twelve Years About Completed.

A Solid Foundation of Earning Power Has Been Developed.

Has Substantial Equity in Outside Investment.

No Early Bond Maturities.

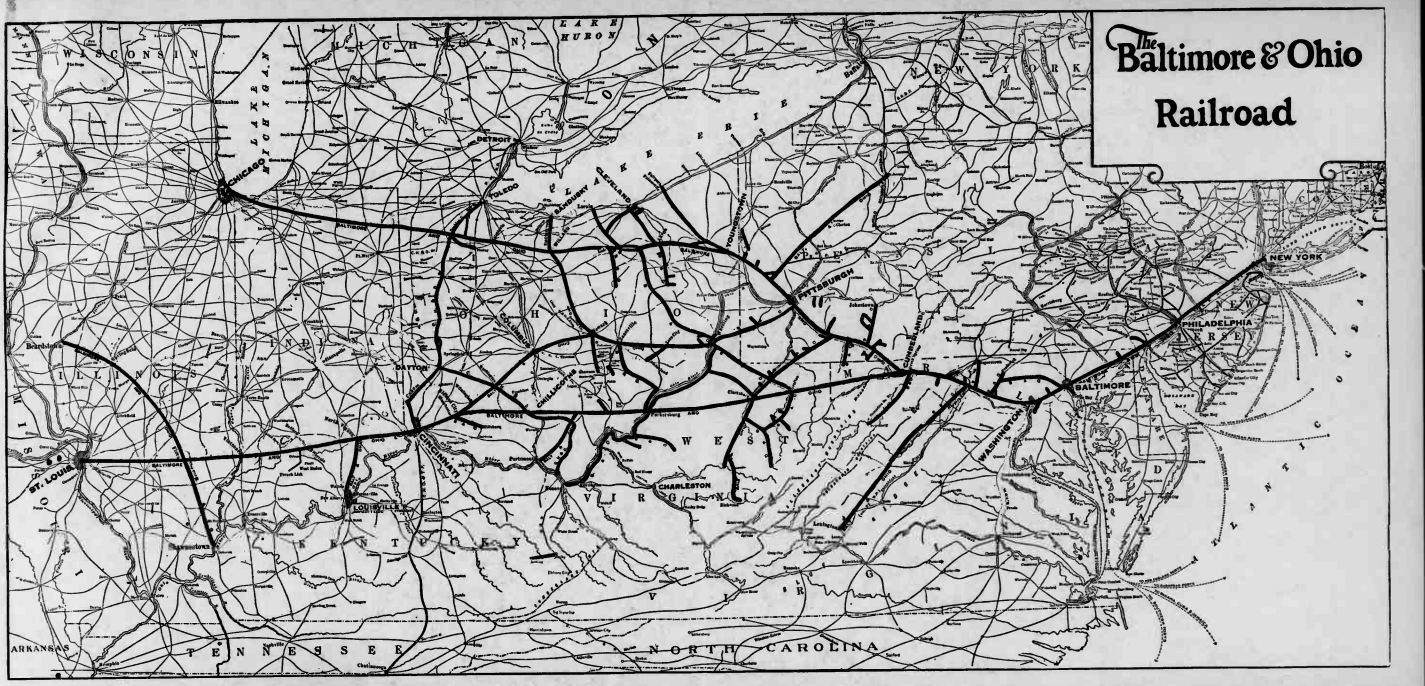
Viewed from this angle we come to the conclusion that the favorable aspects are sound and that with the present efficient management and a few years of good business even the junior securities of the road will again reach the high investment plane they once held.

Rutter & Co.

Baltimore & Ohio Bonds

We are prepared to furnish investors with detailed information regarding any of the various issues of B. & O. bonds, to quote current market prices and to execute buying or selling orders.

Rutter & Co.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